

An Analysis of Estee Lauder and Impact of COVID-19 Pandemic

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Abstract: Although the impact brought by COVID-19 pandemic is destructive to the majority of companies all over the world, Estee Lauder has proven itself to be an enduring brand that stands strong despite the pandemic headwinds. With its unique advantages over its competitors and efficient management, Estee Lauder is capable of dealing with the pandemic challenges effectively and emerging from the current crisis with an even stronger competitive position.

Keywords: COVID-19 pandemic; Cosmetics; Estimation; Financial indicators; Stock price; Estee Lauder

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1 Introduction

Estee Lauder is the world leader in the global premium beauty market, having business lines across skincare (52% of 2020 sales), makeup (33%), fragrance (11%), and haircare (4%) categories, with popular brands such as Estee Lauder, Clinique, MAC, La Mer, Jo Malone, Aveda, Bobbi Brown, Too Faced, and Origins^[1]. The firm operates in 150 countries, with 27% of revenue stemming from the Americas, 44% from Europe, the Middle East and Africa, and 30% from Asia-Pacific. The business of Estee Lauder is geographically diverse. The company sells its products through department stores, travel retailers, multi-brand specialty beauty stores, brand-dedicated freestanding stores, e-commerce, salons/spas, and perfumeries. Moreover, Estee Lauder has won worldwide reputation for its products

because the company has been devoted to rigorously progressive product innovation that brings new formulas to meet evolving demands from its wide customer demographics and to address its mission to be a socially responsible corporation. In particular, Its Estee Lauder Asia Research and Development (R & D) center focuses on the group's exclusive environmental friendly chemistry research projects that not only closely align with the preference of its customers but also reflects their dedication to build responsible and sustainable patterns for product developments.

2 Macro analysis in sight of COVID-19 pandemic

The aging population, growing prevalence of skin diseases, shifting interest of consumers toward organic and chemical-free products, and increasing personal care spending are the key factors driving the growth of the U.S. beauty and personal care products industry, which is set to grow from \$81.1 billion in 2019 to \$128.7 billion in 2030, at a steady 4.8% CAGR during 2020–2030. The U.S. Department of Commerce estimates that e-commerce has accounted for 16% of all retail sales in the nation in 2019 with \$312.3M internet users. With the increase in the number of internet users, retail sales tend to grow consistently. However, sales of actual beauty products have reduced due to the impact of the COVID-19 pandemic and the demand for toiletries, including soaps and sanitizers, has soared in the country. Nevertheless, during the COVID-19 pandemic, the revenue of Estee Lauder didn't get severely affected. Estee Lauder has a staple product sector that costs less than its major discretionary products, which is

produced by Clinique. Therefore, people with lower budgets would prefer Estee Lauder's more affordable products during the pandemic because consumers would only be willing to spend money on cheaper consumer staples amidst the economic downturn brought about by the pandemic.

3 Measures Implemented by Estee Lauder Dealing with the Pandemic

Currently, Estee Lauder plans to put efforts on developing its e-commerce sector because Estee Lauder has realized the benefit of marketing on social media. Estee Lauder has a considerable number of followers on social media. The popularity of Estee Lauder will promote brand loyalty. As a result, Estee Lauder's online sales soared during the previous quarter (maybe due to the impact of COVID-19 pandemic that caused the demand for online shopping to rise). On 6.18 mid-year shopping festival in China, Estee Lauder's online sales tripled and its sales ranked second among all premium beauty brands thanks to the aggressive use of sales strategies such as discount. Similarly, Estee Lauder will likely have soaring sales on "Black Friday" in North America and Europe. Generally, Estee Lauder is a company that won't be largely influenced by short-term risks like those caused by COVID-19 pandemic and have a promising future because of its venture into the e-commerce sector that it is starting to reap benefits from.

4 Cosmetics industry analysis for estee lauder

Despite the potential weakness in US sales caused by pandemic, the shift to e-commerce and sales

growth in Asia are strong positives for growth^[2], with high holiday sales growth thanks to e-commerce operations. Health and beauty sales on e-commerce as a whole are expected to grow 17.9% to \$62.6 billion, leaving a large market vacancy to capture. The rapid shift in consumer shopping habits could actually see that figure reaching to \$65 billion or even \$70 billion. This extra growth would provide an even larger growth margin for retailers like Estee Lauder because Estee Lauder is the leading company in Personal Care & Beauty Retail. Accordingly, Argus, Morgan Stanley and RBC led the turnaround of Wall Street's attitude from bearish to bullish on Estee Lauder. Nevertheless, Estee Lauder has several strong competitors including L'Oreal, P&G, Max Factor, Revlon, etc. Therefore, Estee Lauder needs to have a continuous flow of product innovation so as to stay ahead of competition. There are various valuable brands under the company, it is important that the range of prices is good and they have the ability to differentiate. The consumers of the beauty market traditionally have strong bargaining power because buyers can easily switch to other brands as the number of these brands present in the market segment is high. However, due to strong customer loyalty to the brand, Estee Lauder has much stronger following and its customers tend to continuously purchase its products. In conclusion, Estee Lauder has relatively strong competitive moats from short-term risks because it operates business all over the world, dominates the market of cosmetics and has strong brand loyalty among consumers. Short-term risks that can impact the business in some countries don't have the ability to affect the entire business portfolio of Estee Lauder.

5 Finance analysis

Table 1. $C(\bar{x} \pm s)$

	Market Cap (billion dollars)	Total Revenue (billion dollars)	ROE (%)	ROA (%)	PE	Gross Profit Margin (%)	Revenue growth
Estee Lauder	88.76	13.96	13.78	7.54	147.4	75.25	-8.36
Tiffany & Co	15.95	3.67	8.95	4.26	55.63	62.03	-16.37
ULTA Beauty, Inc.	16.31	6.39	15.26	5.23	58.44	37.26	-9.93

Estee Lauder has been increasing its cosmetics industry for over 15 years at a growth rate of at least 5%. The net revenue of Estee Lauder has doubled from 2009 to 2019. Admittedly, Estee Lauder had been affected this year by the pandemic. For instance, travel retail, approximately 23% of Estee Lauder's sales^[4], had been largely affected by the pandemic.

Nevertheless, despite the pandemic impact, Estee Lauder's total revenue is 13.96 billion dollars with the revenue growth rate of -8.36%. The total revenue of Estee Lauder wasn't as negatively impacted by the pandemic compared to its peers (Tiffany & Co has the revenue growth rate of -16.37% and ULTA Beauty has the revenue growth rate of -9.93%). Estee

Lauder's online sales had increased significantly this year, seeing significant sales in the 6.18 mid-year shopping festival in China ^[5]. Moreover, high ROE and ROA indicate that Estee Lauder is a company capable of earning revenue. Similarly, Estee Lauder has the highest gross profit margin among its peers, which means that Estee Lauder has a strong capability to make profit compared to its competitors.

6 Conclusion

As detailed in the analysis above, with Estee Lauder's broad product portfolio, effective management and expansion of online presence, lucrative profit potential and strong brand loyalties among its customers, it's safe to draw the conclusion that Estee Lauder remains a promising stock that we project to

continue to grow steadily in the future.

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